


BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2003-41-S - ORDER NO. 2003-477

AUGUST 5, 2003

IN RE: Application of Moore Sewer, Inc. for Adjustment of Rates and Charges to Reflect its Operation as a Collection-Only Sewerage Utility.))))))	ORDER APPROVING COLLECTION-ONLY RATE AND MISCELLANEOUS RATES AND CHARGES
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This matter comes before the Public Service Commission of South Carolina (the Commission) on the Application of Moore Sewer, Inc. (Moore Sewer or the Company) for the adjustment of rates and charges for the provision of sewer collection. The Company's service area is in Spartanburg County, South Carolina.

By letter, the Commission's Executive Director instructed the Company to publish a prepared Notice of Filing, one time, in a newspaper of general circulation in the area affected by the Company's Application. The notices indicated the nature of the Company's Application and advised all interested parties desiring participation in the scheduled proceeding of the manner and time in which to file the appropriate pleadings. The Company was likewise required to notify directly all customers affected by the proposed rates and charges.

Petitions to Intervene were filed by Ralph W. Longshore, Sr., Rickey L. Henderson, Leonardo Jordan, and the Consumer Advocate for the State of South Carolina (the Consumer Advocate).

The Commission Staff (the Staff) made on-site investigations of the Company's facilities, audited the Company's books and records, and gathered other detailed information concerning the Company's operations.

A public hearing was held on June 17, 2003 at 2:30 PM in the offices of the Commission, with the Honorable Mignon L. Clyburn, Chairman, presiding. John J. Pringle, Esquire represented Moore Sewer, Inc. Ralph W. Longshore, Sr., Rickey L. Henderson, and Leonardo Jordan all appeared pro se. The Consumer Advocate was represented by Elliott F. Elam, Jr., Esquire, and Hana Porkorna-Williamson, Esquire. The Commission Staff was represented by F. David Butler, General Counsel, and Jeffrey M. Nelson, Staff Counsel.

Members of the public appeared and testified as to their opinions of the merits of the case. The Company then presented the testimony of William G. Teichman. Ralph W. Longshore, Sr. and Rickey L. Henderson, pro se Intervenor, also testified. The Staff presented the testimony of Sharon Scott, William O. Richardson, and the testimony of Mark Cann, of the South Carolina Department of Health and Environmental Control (DHEC).

FINDINGS OF FACT

1. The Company is a sewer utility operating in Spartanburg County, South Carolina, and is subject to the jurisdiction of the Commission, pursuant to S.C. Code Ann. Section 58-5-10 (1976) et seq.

2. Moore Sewer, Inc. is currently authorized to serve the Linville Hills and Madera Subdivisions in Spartanburg County, South Carolina. Linville Hills currently

serves approximately 275 customers and Madera serves approximately 185 customers, all of which are residential.

3. The Linville Hills sewerage system includes 11,000 feet of 6 and 8 inch drain pipe, and approximately 34 to 36 manholes.

4. The Madera sewerage system includes 5,675 feet of eight-inch drainpipe and some 25 manholes.

5. The Company was authorized to charge a flat-rate for sewer (treatment and collection) of \$28.50 per month in the Linville Hills Subdivision, approved by Order No. 2001-243, issued in Docket No. 1999-397-S. Moore Sewer, Inc. was also authorized to charge a flat rate for sewer (treatment and collection) of \$17.50 in the Madera Subdivision, approved by Order No. 90-31, issued in Docket No. 88-45-S. Pursuant to Order No. 2002-712, issued in Docket No. 2002-104-S, the Company was authorized to continue charging these rates as collection-only rates until the Commission made a final determination on an Application for a new cost-based collection-only rate that was required by this Commission to be filed by the Company within sixty days of its receipt of Order No. 2002-712.

6. Moore Sewer seeks the approval of its submitted cost-based collection-only rate structure. The Company seeks to charge the present flat-rate amount of \$28.50 per month originally approved for Linville Hills to all of its customers, including those in both the Linville Hills and Madera Subdivisions. Moore Sewer also seeks approval of a \$10 fee for new customer set-up, and an \$18 notification of disconnection fee. Further, the Company seeks to withdraw its request for a \$350 tap fee. Finally, Moore Sewer

seeks recovery of \$38,850 in revenue from Madera customers. The Company did not collect a rate from Madera customers for twelve (12) months. The Company requests the ability to recover those revenues from its Madera customers over a 12-month period through waiver of Commission Regulation 103-533(2)(a).

The Company states that the legal requirements of its NPDES permits have forced it to phase out its treatment operations and become a collection-only utility. The Company has had to tie on to the Spartanburg Sanitary Sewer District inceptor sewer line, in order that wastewater be treated at the North Tyger Wastewater Treatment Facility. Teichman states that collection rates or a collection rate commensurate with the current rate for Linville Hills (\$28.50 per month) are absolutely essential due to the increased costs associated with maintaining the system, as well as the capacity fees and other substantial costs that Moore Sewer has incurred in order to comply with the DHEC Consent Orders. Teichman also presented testimony supporting the requested new Customer Set-Up charge and the new Notification of Disconnection charge.

7. The Commission Staff, through the testimony and exhibits of Staff witness Sharon G. Scott, made accounting adjustments to allocate expenses for the collection-only rate. Ms. Scott noted that although Staff has routinely used allocations provided by the Commission's Utilities Department to determine collection-only expenses, Staff verified the majority of the actual expenses in this case.

First, the Staff proposed to annualize revenue using the year end customers at the current rate for Madera and Linville Hills subdivision. Staff's adjustment in this regard is \$44,424. Second, the Staff proposes to remove the per book amount of \$10,162 for

purchased power, since it represents accrued expenses for a prior period. Next, Staff proposes to reclass Utilities Non-electric to the Purchased Power account and to allocate 25% of the total test year electric expenses to collection-only operations. Total test year Electric Expenses amounted to \$5,683, with 25% or \$1,421 being allocated to collection-only expenses. This amounts to an adjustment of (\$3,503).

Further, the Staff proposes to reclassify the total expenses for Fuel for Power Production to the close-out expenses. These expenses would be eliminated for a collection-only sewer system. The Company proposes to include 100% of the per book amount of \$1,991 in operating expenses.

Staff also proposes to remove the total expenses for chemicals of \$1,281, which were used for the sewer treatment plant. The Company proposes to include 40% of the per book amount of \$1,281, or \$513, resulting in a Company adjustment of (\$768).

In addition, Staff proposes to remove \$6,690 from total Materials and Supplies of \$14,205 and reclassify to close-out and capital costs. Staff also removed manhole expenses of \$2,177 and sewer line extension expenses of \$4,513 which resulted in an account balance of \$7,514 for collection-only Materials and Supplies. These expenses were incurred as a result of the interconnection for the Linville Hills subdivision to the Spartanburg Sanitary Sewer District. The Company proposes to allocate 84.68% of the per book amount of \$14,205, or \$12,028, to collection-only expenses, which results in a Company adjustment of (\$2,177).

Staff and the Company propose to include the 100% of the per book expenses for Office, Postage, Miscellaneous, and Taxes Other Than Income. The Staff and Company

agree that these expenses will still be incurred for a collection-only system. The per book expenses amounted to \$230 for Office Expenses, \$513 for Postage Expenses, \$190 for Miscellaneous Expenses, and \$271 for Taxes Other Than Income. No adjustment is made to these accounts.

The Staff proposes to annualize Contractual Services-Billing to reflect the expenses for billing the customers of Linville Hills and Madera subdivisions. The cost is \$1.00 per bill and the Company sends out 307 bills per month, which amounts to \$3,684 per year. Staff subtracted the per book amount of \$3,092 from the Staff's annualized amount of \$3,684 for a total adjustment of \$592. The Company proposes to include 100% of the per book amount of \$3,092 for collection-only expenses.

Staff proposes to remove \$11,961 from total Contractual Services-Professional of \$16,148, resulting in an account balance of \$4,187. Staff reclassified \$2,600 for the engineering and surveying of the Linville Hills sewer line connection to capitalized expenses and amortized an extraordinary electrical repair of \$4,189 over a five-year period by eliminating \$3,351. The five-year amortization period is the average number of years between the Company's last three rate proceedings including the present case. Staff also removed expenses already included in the account of \$357 and reclassified equipment rental expenses of \$1,436 to close-out expenses and capitalized expenses. Staff removed rate case and legal expenses in the test year of \$4,217 and amortized these expenses over 5 years. The Company proposes to allocate 82.97% of the per book amount of \$16,148, or \$13,398, to collection-only expenses for an adjustment of (\$2,750).

For Contractual Services-Testing, the Staff and Company propose to reclassify \$1,190 for J. L. Rogers & Calcott to close-out expenses and eliminate \$1,800 for wastewater testing expenses from Greenville Analytical for a total adjustment of (\$2,990). These expenses will no longer be needed for a collection-only system.

The Staff proposes to eliminate total Contractual Services-Other of \$83,100, resulting in an account balance of -0-. The Staff eliminated \$6,000 for the sewer plant operator, \$13,500 for payment on accounts payable to Operations Drains which had already been included in expenses, \$847 for pump repairs which would be eliminated as a collection-only expense, \$821 for software and tools which should be capitalized, and reclassified equipment rental of \$4,620 and labor expenses of \$57,312 to the close-out and capitalized expenses. The Company proposes to include 4.08% of the per book expenses of \$83,100 or \$3,390 for collection-only expenses, which results in a Company adjustment of (\$79,710).

The Staff proposes to remove rental expense of \$97,172 from the per book amount of \$98,939, resulting in an account balance of \$1,767. The account balance includes office rent and utilities. Staff eliminated prior period rent to the shareholder of \$18,600 for the rental of the lagoon which is no longer needed after the close of the treatment facilities and eliminated \$14,400 which was also included in this account as rent to shareholder for the lagoon. Staff considered these amounts to be a distribution to the shareholder and not an expense item. Staff also reclassified expenses of \$64,319 associated with closing the lagoon, manholes, and the sewer line extension to close-out and capitalized costs. Staff also annualized the office rent and utility expenses and

increased expenses by \$147. The Company proposes to allocate 22.22% of the per book amount of \$98,939, or \$21,980, to collection-only expenses, which results in a Company adjustment of (\$75,959).

The Staff proposes to remove 2001 accrued expenses for Transportation of \$877 from the per book amount of \$5,451, resulting in an account balance of \$4,574. Prior period expenses should not be included in the test year figures. The Company and Staff propose to allocate 100% of the transportation expense of \$5,450 and \$4,574 respectively, to the collection-only expenses.

The Staff proposes to remove 2001 accrued expenses of \$1,428 for Insurance from the per book amount of \$4,990, resulting in an account balance of \$3,562. Prior period expenses should not be included in the test year figures. The Company and Staff propose to allocate 100% of the per book expense of \$4,990 and \$3,562 respectively, to collection-only expenses.

The Staff and Company propose to eliminate 100% of Livestock Expense of \$22 which is no longer needed for a collection-only system.

Staff proposes to reflect 12 months for telephone expenses by removing \$159 from the per book amount of \$2,360 which results in an account balance of \$2,201. The Staff and Company propose to include 100% of the per book amount of \$2,201 and \$2,360, respectively.

Staff and the Company propose to annualize depreciation expense based on year-end plant and depreciation rates recommended by the Utilities Department and reflect depreciation expenses allocated to collection-only operations. Staff computed total plant

allocated to collection-only operations of \$94,268 and depreciation expense associated with this plant of \$3,059. Staff subtracted the per book amount of \$9,552 from Staff's computed amount of \$3,059 for an adjustment of (\$6,493). The Company proposes to allocate 50.78% of the per book amount of \$9,552 for an account balance of \$4,850. The undepreciated value of \$11,539 for the retired treatment plant is included in the extraordinary retirement of the close-out costs for the sewer lagoon. This amount is amortized over a five-year period which is the average number of years between the Company's last three rate proceedings.

The Staff proposes to remove \$503 from the taxes and licenses expense account which was inadvertently added to this account. The Company had originally filed in its application an account balance of \$1,703. The Company also made this correction in its prefiled testimony. The Staff also proposes to remove \$1,200 for the DHEC permits which are no longer needed for a collection-only system per the Utilities Department.

The Staff and Company propose to amortize over 40 years, the capacity fees paid to the Spartanburg Sanitary Sewer District of \$17,933 and to the City of Spartanburg of \$28,154 for the Madera connection and the known and measurable amount of \$8,901 to be paid to the Spartanburg Sanitary Sewer District for the Linville connection, for a total amortization of \$1,375 (\$54,988/40 years). These expenses were required to be paid before the Company could interconnect with the City of Spartanburg or the Spartanburg Sanitary Sewer District. The Company also proposes an adjustment of \$1,375 in its revised application. Exhibit B-6.

Staff proposes to adjust for an extraordinary retirement of the treatment plant and the costs to close-out the sewer lagoon and capitalize the costs for the manholes and the sewer line extension. Staff amortized the total expenses for the extraordinary retirement of \$72,541 over 5 years, for a total yearly amortization of \$14,508. The five-year amortization period is the average time between the Company's last three rate proceedings. The Staff proposes to capitalize the expenses for the manholes and the sewer line extension of \$64,452. The capitalized expenses include labor, equipment rentals, and materials and supplies. Staff computed depreciation expense of \$1,611 using a depreciation rate of 2.5%, or 40 years as recommended by the Utilities Department. The Company proposes to amortize total close-out expenses of \$143,109 over a three-year period for an adjustment of \$47,703. Staff included an additional equipment rental of \$1,621, removed accounts payable already included in expenses of (\$12,500), recomputed accrued labor to exclude the addition of federal, state, and employee's FICA to gross wages and recomputed the hours for labor from August 2002-October 2002 for an adjustment of (\$10,110). Staff also recomputed the equipment expenses charged by Operation Drains, Inc. to Moore Sewer, Inc. The owner of Moore Sewer, Inc. also owns Operation Drains, Inc. The equipment was used to close down the pond and for the sewer line interconnection. Operations Drains, Inc. charged Moore Sewer, Inc. 75% of the going market price for the equipment rental based on quotes obtained by the Company. Staff also obtained quotes from three rental companies for the going price for equipment rentals, averaged the three costs and applied a 75% factor. Staff adjusted the cost for equipment rentals by (\$8,011). Staff included \$4,842 of equipment rentals missed for the

test year and rental expenses which were incurred after the test year. Staff included Materials and Supplies for the sewer line interconnection of \$4,513 which were reclassified from Account #720 and fuel used for rental equipment of \$1,991, which was reclassified from Account #716. Staff also included in the extraordinary retirement, the undepreciated balance of the retired treatment plant of \$11,539. Staff was able to determine the specific expenses related to the closing of the sewer lagoon, sewer line extension, manholes, accrued expenses paid by Moore, and Materials and Supplies from Account #720. The remaining expenses were allocated 50% to closing the lagoon and 50% to the sewer line interconnection. This allocation was based on the Company's determination that the work involved for the remaining expenses, which include equipment rentals and labor, were equally divided between the closing of the lagoon and the sewer line interconnection.

The Staff proposes to amortize rate case expenses over a five-year period. The five-year period is based on the rate case history of the Company and its previous owner. Staff determined that three cases, including the current case, have been filed over a 15-year period for an average of 5 years between each case. The cases used for the amortization was the present case with a test year ending October 31, 2002, Docket No. 1999-397-S with a test year ending August 31, 2000, and Docket No. 87-204-S with a test year ending December 31, 1987. Staff amortized total rate case expenses of \$17,363, which included test year expenses from the previous Docket No. 2002-104-S of \$4,217 and current rate case and accountant's fees of \$13,146, over 5 years for a total

amortization of \$3,473. The Company proposes to amortize estimated rate case expenses of \$12,000 over a three-year period for an amount of \$4,000.

The Staff proposes to compute gross receipts taxes on the as adjusted revenue. There were no gross receipts taxes per books. Staff used the current gross receipts factor of .008141931 applied to the as adjusted revenue of \$132,900 for an adjustment of \$1,082.

The Staff proposes to adjust income taxes based on taxable income as adjusted including synchronized interest expense. Staff allowed only interest expense associated with the long-term debt portion of rate base. This method ensures that only interest expense for plant investment is included and not interest expense for loans used to fund day-to-day operations. Staff computed a rate base of \$164,591 by using the collection only plant in service of \$94,268, capacity fees of \$46,087, and capitalized plant of \$64,453. Staff computed accumulated depreciation of \$45,916 using the rates recommended by the Utilities Department and Cash Working Capital of \$5,978 using the 45-day collection cycle. Staff subtracted \$280 for Customer Deposits. Since the Company had negative retained earnings, Staff utilized a 50/50 capital structure to allocate total rate base of \$164,591 to long-term debt, which amounted to \$82,295. Staff computed an overall cost rate of 3.08% applied to \$82,295 for allowable interest expense of \$2,535. Staff used a 5% state tax rate and the federal tax rates of 15% and 25%.

The Staff and Company propose to show the effect of the proposed increase of \$24,420. The Utilities Department computed the proposed increase using the present customers and the proposed rate.

The Staff proposes to adjust gross receipts taxes for the effect of the proposed increase. Staff applied the gross receipts factor of .008141931 to the proposed increase of \$24,420 for an adjustment of \$199.

The Staff proposes to adjust income taxes for the effects of the proposed increase. Staff used a 5% state tax rate and the federal tax rates of 15%, 25%, and 34%. Staff also used synchronized Interest Expense of \$2,535 in computing the Income Taxes after the proposed increase.

CONCLUSIONS OF LAW

1. The Company's operations are subject to the jurisdiction of the Commission pursuant to S.C. Code Ann. Section 58-5-10, et seq. (Supp. 2002).

2. The Commission Staff's adjustments are adopted, including a salary of \$19,200. The Staff was able to verify actual expenses for the most part. For expenses where allocations were used, we find that the allocations supplied by the Commission's Utilities Department are appropriate and based on sound engineering principles. We believe that a salary of \$19, 200 is properly allowable for the President of the utility, who spends many documented hours maintaining the system.

3. There is no statutory authority prescribing the method which this Commission must utilize to determine the lawfulness of the rate of a public utility. For a sewer utility whose rate base has been substantially reduced by customer donations, tap fees, contributions in aid of construction, and book value in excess of investment, the Commission may decide to use the "operating ratio" and/or "operating margin" method for determining just and reasonable rates. The operating ratio is the percentage obtained

by dividing total operating expenses by operating revenues; the operating margin is determined by dividing the total operating income for return by the total operating revenues of the utility. The Commission concludes that the use of the operating margin is appropriate in this case.

4. The Commission is mindful of the need to balance the respective interests of the Company and of the consumer. It is incumbent upon this Commission to consider not only the revenue requirement of the Company, but also the proposed price for the sewer service, the quality of service, and the effect of the proposed rates upon the consumer.

5. Based upon all of these considerations, the Commission determines that the Company should have the opportunity to earn a 25.37% operating margin on its regulated sewer operations in the Madera and Linville Hills subdivisions in Spartanburg County, South Carolina. We hold that the Commission Staff shall monitor this operating margin during the next fiscal year. In order to have a reasonable opportunity to earn a 25.37% operating margin, the company will need to produce \$115,250 in total annual operating revenues.

TABLE A**OPERATING MARGIN**

Operating Revenues	\$115,250
Operating Expenses	<u>83,437</u>
Net Operating Expenses	31,813
Customer Growth	<u>0</u>
Net Income for Return	<u>31,813</u>
Interest Expense	2,576
Operating Margin	<u>25.37%</u>

6. In order to earn the operating revenues necessary to earn an operating margin of 25.37%, the Company must earn revenues of \$115,250. In order to earn these revenues, we hold that a collection only flat rate of \$20.88 per customer per month may be charged by the Company for both the Linville Hills and Madera subdivisions. This is derived by multiplying the total number of customers, which is 460, by 12 months, which gives a total of 5,520 bills. Dividing the number of bills into the revenue amount of \$115,250 yields the rate of \$20.88 per customer per month.

7. We also approve the \$10 New Customer Set-Up Fee and \$18 Notification of Disconnection Fee as proposed by the Applicant. We grant the request to withdraw the request for a \$350 tap fee.

8. The request of the Company for lost revenue from the customers of Madera is denied.

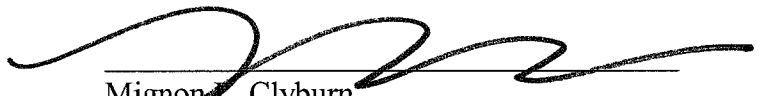
9. Accordingly, it is ordered that the rates attached in Appendix A are hereby approved for service rendered on or after the date of this Order.

10. It is ordered that if the approved schedule is not placed in effect within three (3) months after the date of this Order, the approved schedule shall not be charged without written permission of the Commission.

11. It is further ordered that the Company maintain its books and records for sewer operations in accordance with the NARUC Uniform System of Accounts for sewer operations as adopted by this Commission.

12. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:


Mignon L. Clyburn
Chairman

ATTEST:


Gary E. Walsh
Executive Director

(SEAL)

APPENDIX A

**MOORE SEWER, INC.
P. O. BOX 2753
SPARTANBURG, S. C. 29304
864-582-3335**

**FILED PURSUANT TO:
DOCKET NO. 2003-41-S
ORDER NO. 2003-477
EFFECTIVE DATE: AUGUST 5, 2003**

SEWER SERVICE

1. MONTHLY CHARGE

- a. Residential-----\$20.88
- b. Commercial----- \$20.88

2. NONRECURRING CHARGES

- a. New Customer Set-Up-----\$10.00
- b. Notification of Disconnection-----\$18.00